

# FDIC State Profile

Summer 2005

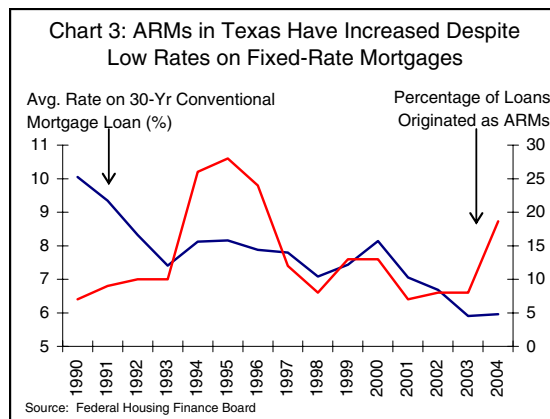
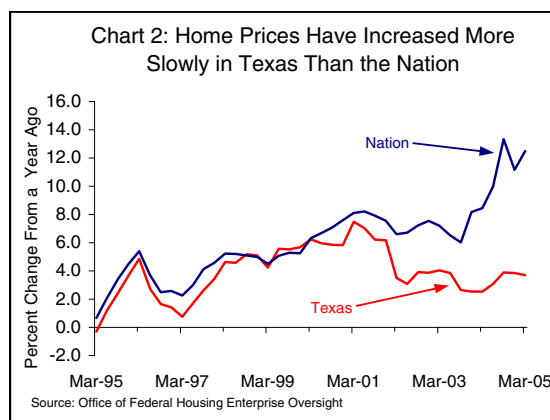
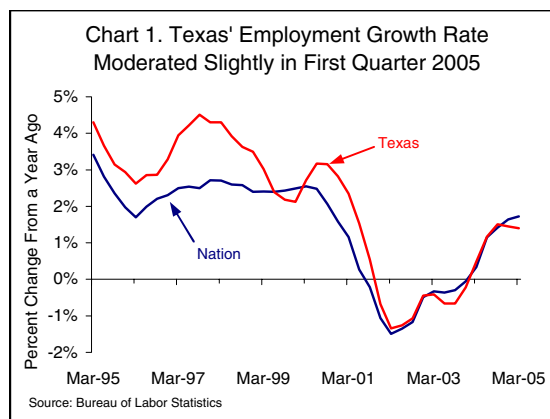
## Texas

### Texas employment growth rate stalls and remains below 1990s levels

- Texas nonfarm employment growth maintained a steady pace in first quarter 2005 advancing 1.4 percent, and was behind the nation's 1.7 percent growth rate (See Chart 1). Preliminary jobs numbers for April indicate that this rate of growth may soften further in the second quarter. These figures are below growth rates recorded during the 1990s when Texas' employment growth ranked among the top ten states in the nation.<sup>1</sup> In contrast, Texas ranked 31<sup>st</sup> in the nation in nonfarm employment growth rates in the first quarter 2005.
- The unevenness of the state's recovery is driving the lackluster employment growth. The construction, utilities, air transportation and telecommunications are just a few key industries that continue to shed workers.
- Job growth is occurring in the professional and business services, education and health services, and leisure and hospitality services. These sectors represent one-third of Texas total nonfarm employment, and created more than half (53 percent) of the state's net year-over-year job gains in first quarter 2005.

### Indications are that job growth should strengthen in the second half 2005.

- After hitting a brief soft patch this past spring, U.S. economic growth should once again pick up, lifting the state's economy. State labor market conditions should continue to improve gradually, bringing down the state's unemployment rate and leading to stronger personal income growth.
- Despite a brief pause in job growth in first half 2005, employment growth should accelerate in the second half advancing between 1.5-2.0 percent – the state's best showing since growing 3 percent in 2000.



<sup>1</sup>Texas nonfarm employment averaged 2.9 percent (compounded annual growth rate) between 1990 and 2000, ranking 6th in the nation.

### Employment in manufacturing and energy was mixed.

- Texas manufacturing employment year-over-year growth rate was flat for the second consecutive quarter. Manufacturing industries that showed the most strength were housing-related and included wood products, cement and concrete products, primary metals, and fabricated metal industries. Job losses occurred in industrial machinery, computers and electronics, semiconductors, and transportation equipment manufacturing.
- Domestic crude oil prices averaged near \$50 during the first quarter 2005. However, the state's economy has become more diversified and, as a result, has not responded as positively as during past periods of high oil prices.<sup>2</sup> Job gains continue to occur in the mining sector because of increased global demand for oil. However, job losses occurred in oil and gas extraction, petroleum and coal products manufacturing, and chemicals manufacturing because of rising costs or productivity gains.

### Texas has not participated in the current house price boom.

- Home prices have increased more slowly in Texas than the nation (See Chart 2). Home prices in the United States and Texas grew at very similar rates throughout most of the mid-to-late 1990s but diverged in the early part of this decade. One explanation for this disparity in house price trends is the severity and length of the state's recession. The U.S. recession began in March 2001 and ended in November of that same year. However, the Texas recession began at the same time but did not end until mid 2003, almost two years later.<sup>3</sup>
- Texas also has an abundance of developable land and less restrictive zoning regulations, factors which may also limit home price appreciation. Housing development in Texas tends to occur on the fringes of urban centers where land is more abundant.

### House and mortgage markets in Texas are providing mixed signals.

- The percentage of Texas homebuyers using adjustable-rate mortgages (ARMs) has increased over the past several years despite historically low rates offered on long-term fixed-rate mortgages (See Chart 3). Surveys suggest increasing use of ARM products with shorter maturities and requiring little or no principal amortization or down payment.

- Texas mortgage loan foreclosures remain among the highest levels in a decade, however, the rate has fallen from highs reported in 2003.
- The Texas Real Estate Confidence Index reported a positive rating for the first quarter of 2005 suggesting that Texas real estate professionals have a favorable outlook for their markets. Builders were the most optimistic followed by commercial lenders. However, the report cautioned that real estate professionals are still uncertain about the outlook for the U.S. economy and the future level of mortgage interest rates.<sup>4</sup>

### Texas insured institutions post solid results for first quarter 2005.

- Banks and thrifts headquartered in Texas posted a first quarter median return on assets (ROA) slightly ahead of the same period for the past two years and higher than the national average. Similarly, past-due and charge-off rates are at decade lows reflective of strong credit quality.
- Texas community banks posted exceptionally strong results reporting the highest first quarter ROA (1.27 percent) since March 1998, 10 basis points higher than the national average for community banks.<sup>5</sup> Improving credit quality has allowed the provision expense to remain at decade low levels; however, there is little room for further declines in this expense.

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<sup>2</sup>West Texas intermediate crude oil prices for first quarter 2005 averaged \$49.71.

<sup>3</sup>Federal Reserve Bank of Dallas Southwest Economy, "Don't Mess with Texas," by Fiona Sigalla, Issue 1 January/February 2005, page 3.

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<sup>4</sup>The TRECI is a quarterly tracking of the state of the real estate industry by Texas A&M Real Estate Center. To access the full report please visit <http://recenter.tamu.edu/news/treci.html>.

<sup>5</sup>Community banks are defined as insured institutions with less than \$1 billion in assets excluding credit card and specialty banks.

## Texas at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.4%	0.5%	-0.4%	-1.3%	2.4%
Manufacturing (9%)	0.0%	-2.9%	-5.7%	-8.5%	-0.8%
Other (non-manufacturing) Goods-Producing (7%)	0.6%	-0.6%	-2.8%	-1.7%	4.6%
Private Service-Producing (66%)	1.8%	1.3%	0.0%	-1.1%	3.0%
Government (17%)	1.1%	-0.1%	2.2%	2.7%	1.1%
Unemployment Rate (% of labor force)	5.8	6.3	6.6	6.1	4.4

<b>Other Indicators</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Personal Income	N/A	5.6%	1.8%	0.1%	6.9%
Single-Family Home Permits	6.6%	15.1%	8.3%	2.7%	0.9%
Multifamily Building Permits	62.1%	-28.9%	13.6%	12.5%	47.6%
Existing Home Sales	7.0%	8.9%	1.8%	4.5%	2.6%
Home Price Index	3.8%	2.5%	4.0%	3.5%	7.5%
Bankruptcy Filings per 1000 people (quarterly level)	1.04	1.06	1.07	0.87	0.89

**BANKING TRENDS**

<b>General Information</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Institutions (#)	678	692	712	727	746
Total Assets (in millions)	218,696	206,181	220,193	200,594	186,349
New Institutions (# < 3 years)	26	21	17	17	23
Subchapter S Institutions	268	266	264	250	227

<b>Asset Quality</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.75	1.96	2.33	2.17	2.16
ALLL/Total Loans (median %)	1.24	1.27	1.29	1.24	1.19
ALLL/Noncurrent Loans (median multiple)	2.35	1.90	1.67	1.84	1.96
Net Loan Losses / Total Loans (median %)	0.15	0.16	0.18	0.18	0.17

<b>Capital / Earnings</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Tier 1 Leverage (median %)	9.45	9.24	9.09	8.93	9.10
Return on Assets (median %)	1.18	1.17	1.15	1.18	1.19
Pretax Return on Assets (median %)	1.55	1.52	1.49	1.52	1.57
Net Interest Margin (median %)	4.64	4.62	4.65	4.69	4.72
Yield on Earning Assets (median %)	6.88	6.86	7.00	7.22	7.61
Cost of Funding Earning Assets (median %)	2.24	2.24	2.39	2.56	2.93
Provisions to Avg. Assets (median %)	0.14	0.15	0.16	0.16	0.16
Noninterest Income to Avg. Assets (median %)	0.90	0.92	0.92	0.90	0.91
Overhead to Avg. Assets (median %)	3.52	3.56	3.51	3.52	3.53

<b>Liquidity / Sensitivity</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Loans to Assets (median %)	55.3	54.0	54.0	54.4	54.6
Noncore Funding to Assets (median %)	17.1	16.5	16.7	16.6	16.7
Long-term Assets to Assets (median %, call filers)	12.8	14.1	12.2	12.3	12.0
Brokered Deposits (number of institutions)	80	77	63	50	48
Brokered Deposits to Assets (median % for those above)	3.7	4.0	3.7	2.0	1.7

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Commercial and Industrial	83.6	85.4	87.3	91.5	90.4
Commercial Real Estate	153.6	148.3	133.1	129.2	115.3
<i>Construction &amp; Development</i>	29.7	24.6	23.8	22.4	19.4
<i>Multifamily Residential Real Estate</i>	2.0	1.9	1.8	1.8	1.6
<i>Nonresidential Real Estate</i>	106.0	102.3	94.4	89.8	81.0
Residential Real Estate	96.5	102.4	105.4	107.1	104.1
Consumer	60.9	68.3	76.9	84.7	94.1
Agriculture	35.4	33.4	33.3	33.7	30.5

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Dallas-Fort Worth-Arlington, TX	165	93,060	< \$250 million	560 (82.6%)
Houston-Baytown-Sugar Land, TX	107	83,930	\$250 million to \$1 billion	88 (13%)
San Antonio, TX	60	27,962	\$1 billion to \$10 billion	27 (4%)
Austin-Round Rock, TX	61	13,841	> \$10 billion	3 (0.4%)
McAllen-Edinburg-Pharr, TX	17	6,350		